



**STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA**

**REPORT OF ORGANIZATIONAL EXAMINATION
OF THE**

**ALFA VISION INSURANCE CORPORATION
MONTGOMERY, ALABAMA**

**AS OF
September 23, 2004**

STATE OF ALABAMA)
COUNTY OF MONTGOMERY)

Sean Duke, being first duly sworn, upon his oath deposes and says:

That he is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

That an organizational examination was made on the affairs and condition of Alfa Vision Insurance Corporation as of September 23, 2004;


That the following pages constitute the report thereon to the Commissioner of Insurance for the State of Alabama Department of Insurance;

And that the statements, exhibits, and data therein contained are true and correct to the best of his knowledge and belief.



Examiner

Subscribed and sworn to before the undersigned authority this 27th day of September, 2004.


(Signature of Notary Public)

Audrey Griffin, Notary Public
(Print Name)

in and for the State of Alabama.

My Commission expires 11/2/05.

TABLE OF CONTENTS

SALUTATION	4
CORPORATE STRUCTURE	5
SOLICITATION PERMIT	6
MANAGEMENT AND CONTROL:	6
Stockholders.....	6
Board of Directors.....	7
Officers	7
CORPORATE RECORDS	7
HOLDING COMPANY AND AFFILIATE MATTERS:.....	8
Holding Company.....	8
Organizational Chart.....	9
STATUTORY DEPOSIT	10
LETTER OF REPRESENTATION.....	10
MARKETING PLAN	10
REINSURANCE.....	11
APPLICATION FOR ADMISSION	12
FINANCIAL STATEMENT	12
NOTES TO FINANCIAL STATEMENTS.....	15
COMMENTS AND RECOMMENDATIONS.....	16
SUBSEQUENT EVENTS	21
CONCLUSION.....	22

Montgomery, Alabama
September 27, 2004

Honorable Walter A. Bell
Commissioner of Insurance
Alabama Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, Alabama 36104

Dear Commissioner:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, an organizational examination has been made of the affairs and condition of Alfa Vision Insurance Corporation as of September 23, 2004. Our report is submitted herewith. Where the term "Company" appears herein, without qualification, it will be understood to indicate Alfa Vision Insurance Corporation.

CORPORATE STRUCTURE

Alfa Vision Insurance Corporation was incorporated on the 1st day of July, 2004, pursuant to the Alabama Business Corporation Act. The Articles of Incorporation were filed in the office of Judge of Probate Reese McKinney, Jr. in Montgomery County, Alabama on July 1, 2004 at 4:09 P.M. Article IV(a) of said Articles of Incorporation provide that:

(a.) "The total number of shares of all classes of capital stock which the corporation shall have authority to issue is eleven million (11,000,000), of which ten million shares of the par value of \$0.10 per share are to be of a class designated "Common Stock", and one million (1,000,000) shares of the par value of \$0.01 per share are to be of a class designated "Preferred Stock."

The company will commence business with capitalization of five million nine hundred ninety seven thousand nine hundred and fifty six dollars (\$5,997,956) consisting of one million dollars (\$1,000,000) of common capital stock which was derived from the issuance of ten million (10,000,000) shares of ten cent (\$0.10) par value common stock. The capitalization also consists of four million nine hundred ninety seven thousand nine hundred and fifty six dollars (\$4,997,956) in gross paid-in and contributed surplus.

The purpose of the company, as described in Article II of said Articles of Incorporation, is:

"to engage (i) in the insurance business and (ii) in any lawful acts or activities for which corporations may be organized under the Alabama Business Corporation Act. "

SOLICITATION PERMIT

Commissioner Walter A. Bell issued an Order Granting Solicitation Permit, numbered S-2004-380EB, dated August 17, 2004. Pursuant to this Order the Company was granted permission to solicit Alfa Corporation to purchase ten million (10,000,000) shares of common stock with a par value of ten cents (\$0.10) per share at a proposed offering price of twenty cents (\$0.20) per share and one million (1,000,000) shares of preferred stock with a par value of one cent (\$0.01) per share for a proposed maximum aggregate offering price of two million ten thousand dollars (\$2,010,000). All amounts were to be paid in lawful monies of the United States of America and the permit, under its terms, shall expire two years from the date of issuance unless earlier terminated by the Commissioner.

MANAGEMENT AND CONTROL

Stockholders

The Company is a stock corporation with ultimate control vested in its shareholders and as of the examination date the Company had issued all ten million (10,000,000) shares of its authorized common stock to Alfa Corporation pursuant to the aforementioned solicitation permit. As the sole shareholder of the Company Alfa Corporation has exceeded the five percent (5%) threshold established pursuant to Chapter 29, Section 1 of the Alabama Insurance Code, as amended, for the determination of control and as such, it is deemed the ultimate controlling party with respect to the Company.

Board of Directors

The Company's Bylaws state that:

Article III, Section 1 Number and Duties

"The property and business of this Corporation shall be managed by its Board of Directors which shall consist of at least one (1) but no more than twenty (20) persons."

The members of the initial Board of Directors, as named in the Articles of Incorporation, serving as of September 23, 2004 were as follows:

Jerry A. Newby
H. Alan Scott
C. Lee Ellis
Steven G. Rutledge, Jr.

Officers

Article IV of the Company's Bylaws state:

Section 1 Designations "The officers of the Corporation shall be a President, a Secretary and a Treasurer, and any other officer or officers the Board shall choose to elect. Any one individual may serve in the capacity of more than one office."

The Company's Officers are elected by and serve at the pleasure of its Board of Directors. The following individuals were serving as corporate officers as of the examination date.

Jerry A. Newby	President
H. Alan Scott	Secretary
C. Lee Ellis	Treasurer

CORPORATE RECORDS

The Company's Articles of Incorporation, as filed with the Montgomery County Judge of Probate and Bylaws as established by the Board of Directors, were inspected during the course of this examination and appeared to provide for the operation of the company in a manner that is consistent with usual corporate practice and in accordance with applicable statutes and regulations.

The minutes from the Board of Directors meetings were reviewed and appeared to be complete with regard to the recording of actions taken to form and operate the Company.

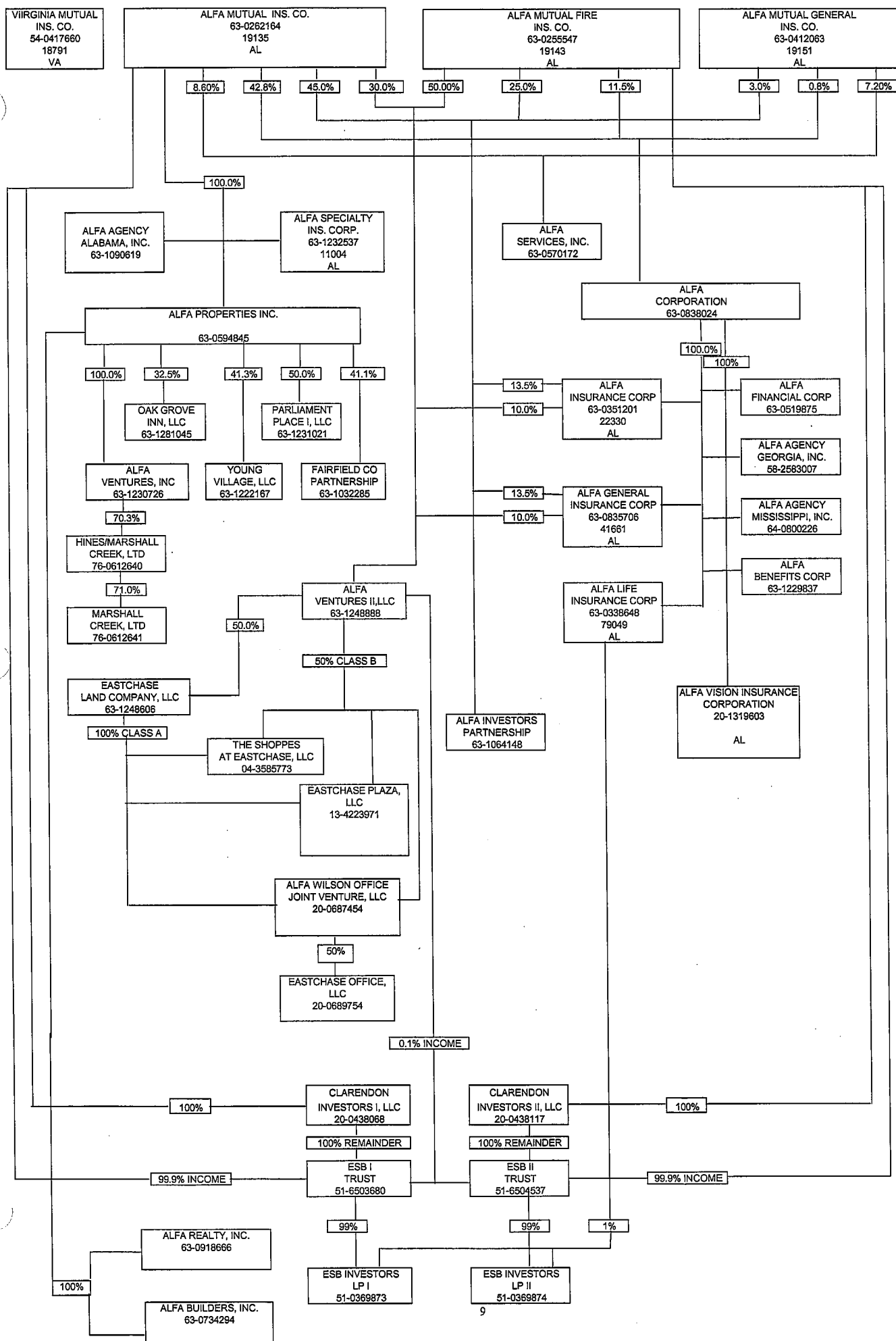
HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company

The company is deemed to be subject to the provisions of the Alabama Insurance Holding Company System Regulatory Act of 1973 by virtue of the control held by its sole shareholder, Alfa Corporation.

Organizational Chart

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STATUTORY DEPOSIT

As of the examination date the Company had placed on deposit with SouthTrust Bank securities with an aggregate book value of one hundred thousand one hundred and twenty five dollars (\$100,125) pursuant to the requirements set forth in Chapter 3, Section 11 of the Alabama Insurance Code, as amended. A custodial agreement between the parties regarding this relationship was pending review before the Commissioner at the conclusion of the examination.

LETTER OF REPRESENTATION

A Letter of Representation, as required by Departmental Memorandum, revised March 10, 1982, was received from Company officials. This Letter attested to the Company's having valid and unquestionable title to all assets. The Letter did not disclose the existence of any unrecorded liabilities as of September 23, 2004.

MARKETING PLAN

The primary purpose of the Company is to provide the Alfa Group of companies with a non-standard auto presence in following geographic areas.

Arkansas	Florida	Indiana	Kentucky	Missouri	Ohio
Tennessee	Texas	Virginia			

The Company intends to offer this product via contract with The Vision Insurance Group, LLC (Vision), a managing general agent that the Alfa Group anticipates acquiring on or about January 1, 2005. Vision has been in existence since 1997 and supervises approximately 2,500 independent agents. Prior to the proposed acquisition Vision had been selling non-standard automobile policies on behalf of third party carriers within the target geographic regions. The Company anticipates a continuation of these sales efforts and will utilize the experience of those carriers in determining its rates in the respective geographic regions until it has established sufficient experience of its own.

First year premium estimates, by region, were as follows.

Arkansas	\$10,126,500
Florida	\$ 2,302,700
Indiana	\$ 1,258,000
Kentucky	\$16,075,500
Missouri	\$ 750,000
Ohio	\$15,924,500
Tennessee	\$ 750,000
Texas	\$ 8,793,039
Virginia	\$20,009,150

REINSURANCE

The Company intends to participate in an inter-company pooling arrangement which includes the following Alfa insurers.

<u>Company</u>	<u>Participation %</u>
Alfa Mutual Insurance Company	18%
Alfa Mutual Fire Insurance Company	13%
Alfa Mutual General Insurance Company	3%
Alfa Insurance Corporation	32.5%
Alfa General Insurance Corporation	32.5%
Alfa Specialty Insurance Corporation	1%

Under the terms of the pooling arrangement all participating companies cede 100% of their directly written premium to Alfa Mutual Insurance Company. They then receive a retrocession of the pooled aggregate premiums, losses and underwriting expenses in an amount equal to their participation percentage. As of the examination date the exact percentage of the Company's participation had yet to be determined.

APPLICATION FOR ADMISSION

The Company submitted a Uniform Certificate of Authority primary application to the Department on August 12, 2004 requesting authority to sell property coverage as defined in Chapter 5, Section 5 of the Alabama Insurance Code, as amended, as well as coverage meeting the definition of casualty defined in Chapter 5, Section 6 of the Alabama Insurance Code, as amended.

FINANCIAL STATEMENT

The Financial Statement included in this report was prepared in conformity with those accounting practices prescribed or permitted by the Commissioner of Insurance for the State of Alabama utilizing Company records and is intended to depict the statutory financial condition of the Company as of September 23, 2004. The information reported therein has been verified by the examiner to the extent deemed necessary. The notes immediately following the Financial Statement in this report are an integral part thereof.

ALFA VISION INSURANCE CORPORATION

STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS

As of September 23, 2004

ASSETS

	<u>ASSETS</u>	NONADMITTED <u>ASSETS</u>	NET ADMITTED <u>ASSETS</u>
Bonds (Note 1)	\$100,125		\$100,125
Cash and short-term investments (Note 2)	\$5,897,831		\$5,897,831
TOTALS	\$5,997,956		\$5,997,956

LIABILITIES, SURPLUS AND OTHER FUNDS

Total Liabilities	<u>\$0</u>
Common Capital Stock (Note 3)	\$1,000,000
Gross Paid In and Contributed Surplus (Note 4)	\$5,000,000
Unassigned Funds (Surplus) (Note 5)	(\$2,044)
Surplus as regards policyholders	\$5,997,956
TOTALS	<u>\$5,997,956</u>

ALFA VISION INSURANCE CORPORATION

STATEMENT OF INCOME

As of September 23, 2004

Current Year
To Date

UNDERWRITING INCOME

Net Premiums Earned	\$0
Net Losses Incurred	\$0
Other underwriting expenses incurred	\$1,825
Total underwriting deductions	<u>\$1,825</u>
Net underwriting gain or (loss)	(\$1,825)

INVESTMENT INCOME

Net investment income earned	<u>(\$219)</u>
Net investment gain/(loss)	(\$219)

OTHER INCOME

Total other income	<u>\$0</u>
Net income before dividends to policyholders And before federal and foreign income taxes	<u>(\$2,044)</u>
Net income after dividends to policyholders After dividends to policyholders but before federal And foreign income taxes	<u>(\$2,044)</u>
Net income	(\$2,044)

CAPITAL AND SURPLUS ACCOUNT

Net income	(\$2,044)
Paid in capital	<u>\$6,000,000</u>
Change in surplus as regards policyholders	\$5,997,956
Surplus as regards policyholders as of statement date	\$5,997,956

NOTES TO FINANCIAL STATEMENTS

1. **BONDS** **\$100,125**

The above captioned amount is consistent with that reported by the company. On August 15, 2004 the company purchased 100,000 units of 3.5% United States Treasury Notes with a maturity date of 8/15/2009 and placed said securities in trust with SouthTrust Bank in satisfaction of the statutory deposit requirements imposed by ALA. Code §27-3-11.
2. **CASH** **\$5,897,831**

The above captioned amount is consistent with that reported by the company. The amount relates to a \$15,000 2.1% time deposit issued by AmSouth Bank, #0038243105, in satisfaction of the solicitation permit requirements imposed by ALA. Code §27-27-10. The remainder of the amount relates to \$5,882,831 in cash held in an escrow account at SouthTrust Bank under the name Alfa Vision Insurance Corporation pursuant to the escrow agreement between the parties executed in compliance with ALA. Code §27-27-12.
3. **COMMON STOCK** **\$1,000,000**

The above captioned amount is consistent with that reported by the company. The line item balance was comprised of the proceeds from the issuance of ten million (10,000,000) shares of \$0.10 par value common stock.
4. **GROSS PAID-IN AND CONTRIBUTED SURPLUS** **\$5,000,000**

The above captioned amount is comprised of the additional \$1,000,000 received on the issuance of the 1,000,000 shares of the company's \$0.10 par value common stock at the proposed offering price of \$0.20. The remaining \$4,000,000 was contributed by Alfa Corporation via wire transfer on September 1, 2004.
5. **UNASSIGNED FUNDS** **(\$2,044)**

The above captioned amount is consistent with that reported by the company and stems from the payment of software maintenance expenses as described in Note 6 and the accrued interest described in Note 7.
6. **Other Underwriting Expenses Incurred** **\$1,825**

The above captioned amount is consistent with that reported by the company and relates to the payment of annual statement software licensing fees by the company.
7. **Net Investment Income Earned** **(\$219)**

The above captioned amount is consistent with that reported by the company and relates to the payment of accrued interest on the 3.5% United States Treasury Notes as described in Note 1.

COMMENTS AND RECOMMENDATIONS

The following summary presents the important points, comments and recommendations which are made as a result of this organizational examination.

Stockholders

It was noted that Article II, Section 2 of the Bylaws stipulate that the annual meeting of the stockholders is to be held immediately following the annual meeting of the parent corporation. The company is reminded that Section 27-27-23, *Code of Alabama*, 1975, as amended, and Section 10-2B-7.01 of the *Alabama Business Corporations Act*, require that the stockholders of a corporation meet annually.

By-Laws

It is recommended that the Company amend Article III, Section 1 of the Corporate By-Laws to require that the Board of Directors be not less than three (3) in number, one third of which being bona fide residents of the State of Alabama in accordance with Section 27-27-23, *Code of Alabama*, 1975, as amended. While it was noted that the current Board of Directors, which consisted of four individuals all of whom are bona fide residents of the State of Alabama, complied with statutory requirements, the aforementioned section of the By-Laws conflicted with statutory requirements in that it set the minimum number of directors at one (1) and failed to address the statutorily mandated residency requirements.

It is also recommended that the Company review Article III, Section 6 in conjunction with Section 27-27-26, Code of Alabama, 1975, as amended, and amend the section so as to reflect the limitations imposed by the aforementioned statute with respect to pecuniary interests of officers, directors and employees.

Conflict of Interest

The Annual Statement, *General Interrogatories*, asks if the Company has "an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees which is in or is likely to conflict with the official duties of such person".

The company is reminded that formal conflict of interest statements should be executed annually for all officers, directors, trustees and responsible employees and that the statements must provide for the effective disclosure of conflicts to the Board of Directors or trustees of the corporation.

Holding Company and Affiliate Matters

The company is reminded that it must file an annual registration statement in accordance with Section 27-29-4, *Code of Alabama*, 1975, as amended, utilizing the form provided by the Commissioner in *Departmental Regulation No. 55*.

The Company is also reminded that an amendment to the registration statement should be filed with the Alabama Department of Insurance within fifteen (15) days after the end of the month in which there is a material change to the information provided in the

original registration statement submitted pursuant to Section 27-29-4, *Code of Alabama*, 1975, as amended, and *Departmental Regulation No. 55*.

Fidelity Bond Coverage

It is recommended that the Company obtain fidelity bond coverage against any loss of money or other property sustained through fraudulent or dishonest acts or acts committed by any of the employees acting alone or in collusion with others. The amount of the bond should be determined using the exposure index provided in the National Association of Insurance Commissioners (NAIC) guidelines and instructions.

Rule, Rate or Form Filings

The company is reminded that all rule, rate and/or policy form filings pertaining to business written within the State of Alabama are to be filed with the Property and Casualty Division of the Alabama Department of Insurance pursuant to Chapter 13 of the *Alabama Insurance Code*.

The company is further reminded that said rate, rule and policy form filings, unless otherwise exempted, must be approved by the Department prior to their use in the State of Alabama.

Producer Licensing Requirements

The company is reminded that all producers representing the company with respect to business written in the State of Alabama must be licensed by the Producer Licensing

Division of the Alabama Department of Insurance. Should another entity direct the marketing administration of the Company's products and/or act as a Managing General Agent (MGA) as defined by Section 27-6A-2, *Code of Alabama*, 1975, as amended, then that entity must be licensed as an MGA in accordance with Section 27-7-4, *Code of Alabama*, 1975, as amended.

Accounts and Records

The company is reminded that its principal place of business and complete records of its assets, transactions and affairs should be maintained within the State of Alabama in accordance with Section 27-27-29, *Code of Alabama*, 1975, as amended.

The Company is also reminded that, as a domestic insurer, it must have, and maintain, its assets in the State of Alabama with the exception of those exclusions provided for by the aforementioned statute.

Investments Generally

It is recommended that the Company maintain signed custodial/ safekeeping agreements with all entities holding its assets/securities which includes, but is not limited to, those securities and/or funds placed on deposit in accordance with Section 27-3-11, *Code of Alabama*, 1975, as amended and *Alabama Departmental Regulation No. 77*. While the Company has submitted a custodial agreement with SouthTrust Bank in conjunction with this examination, the examiner has neither issued nor formed an opinion as to its compliance with applicable laws and regulations of the State of Alabama and the

Alabama Department of Insurance and said agreement, upon licensure, should be submitted for the Commissioner's approval.

It is further recommended that if the Company chooses to place securities in institutions not operating under an approved, signed custodial agreement, then said securities should be non-admitted in all filings with the Alabama Department of Insurance.

All securities purchased by the company should be reflected in the NAIC publication Valuation of Securities (VOS) or otherwise meet the exemption requirements outlined in the National Association of Insurance Commissioner's Purposes and Procedures Manual of the NAIC Securities Valuation Office (Procedure Manual). Securities Acquisition Reports (SARs) should be filed on those items not included in the Securities Valuation Office (SVO) database. SARs should be filed timely within 120 days of purchase per Procedures Manual instructions. It is recommended that the company non-admit investments for which appropriate filings have not been made in a timely manner in its annual and quarterly statements in accordance with *Alabama Insurance Department Regulation No. 98*.

Reinsurance

All reinsurance arrangements should be formulated in accordance with Section 27-5-12, *Code of Alabama*, 1975, as amended, as well as *Alabama Department of Insurance Regulation No. 105*.

The above items are intended to address important points, comments and recommendations noted during the examination. The items are in no way intended to be, nor should they be construed to be, a comprehensive list of the regulatory requirements the company is expected to meet upon licensure. As such, it is recommended that the Company obtain the following publications and adhere to all requirements relating to the operation of a stock property and casualty insurance company contained therein.

- Title 27, *Code of Alabama*, 1975, as amended.
- Alabama Department of Insurance Regulations
- The National Association of Insurance Commissioners *Accounting Practices and Procedures Manual*.
- *Official NAIC Annual Statement Blank*- Property and Casualty.
- The NAIC *Annual Statement Instructions*- Property and Casualty.

SUBSEQUENT EVENTS

Effective September 28, 2004 the Company amended its By-Laws to address those recommendations pertaining to Section 27-27-23, *Code of Alabama*, 1975, as amended, and Section 27-27-26, *Code of Alabama*, 1975, as amended. Said amendment: (1) increased the minimum number of directors to three (3); (2) required at least on third of elected or appointed directors be bona fide residents of the State of Alabama; and (3) prohibited any officer, or director, or any member of any committee or employee charged with the duty of investing or handling the Company's funds from being pecuniarily interested in transactions made by, or on behalf of, the Company. As a result

of these changes the Company's By-Laws are deemed to be in compliance with Alabama's statutory requirements.

CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by the officers and employees of the Company during the course of the examination.

The customary insurance examination procedures have been followed to the extent appropriate in connection with the verification and evaluation of assets and determination of liabilities set forth in this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to be 'S. Duke', is written over a horizontal line.

Sean Duke, Examiner
State of Alabama Department of Insurance